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Hotel Industry Performance in 2018–2019 and the JHFM Index

So far, 2019 has been yet another productive year for hotels in the United States. According to the latest Smith Travel Research (STR) report (August 2019), the year-to-date occupancy for these lodging firms was 71.4% (same as in August 2018) and the year-to-date average daily rate, or ADR (August), grew 0.9% to \$132.47. The year-to-date ADR was \$130.71 (same period) in 2018. The August year-to-date revenue per available room (RevPAR) of these firms also increased by 0.9% to \$94.55 relative to \$93.37 (same period) in 2017. Regardless of the positive overall results, the stagnating growth rates for occupancy, ADR, and RevPAR in 2019 relative to the same period in earlier years are concerning.

Per latest IBISWorld Industry Report for Hotels & Motels in the United States, the industry revenue has experienced strong growth during the recent five-year period. The industry revenue for U.S. hotels and motels should increase to \$206.5 billion in 2019 at an average annual rate of 4%, relative to \$203.2 billion in 2018. However, given the current economic uncertainties, increased competition from external operators such as Airbnb and VBRO, and declining profit margins, revenue growth is expected to be limited to 1.6% in 2019 compared to a 4.7% growth rate in 2018. Figure 1 summarizes the rising trend of revenues in this industry over the last 15 years (since 2000).

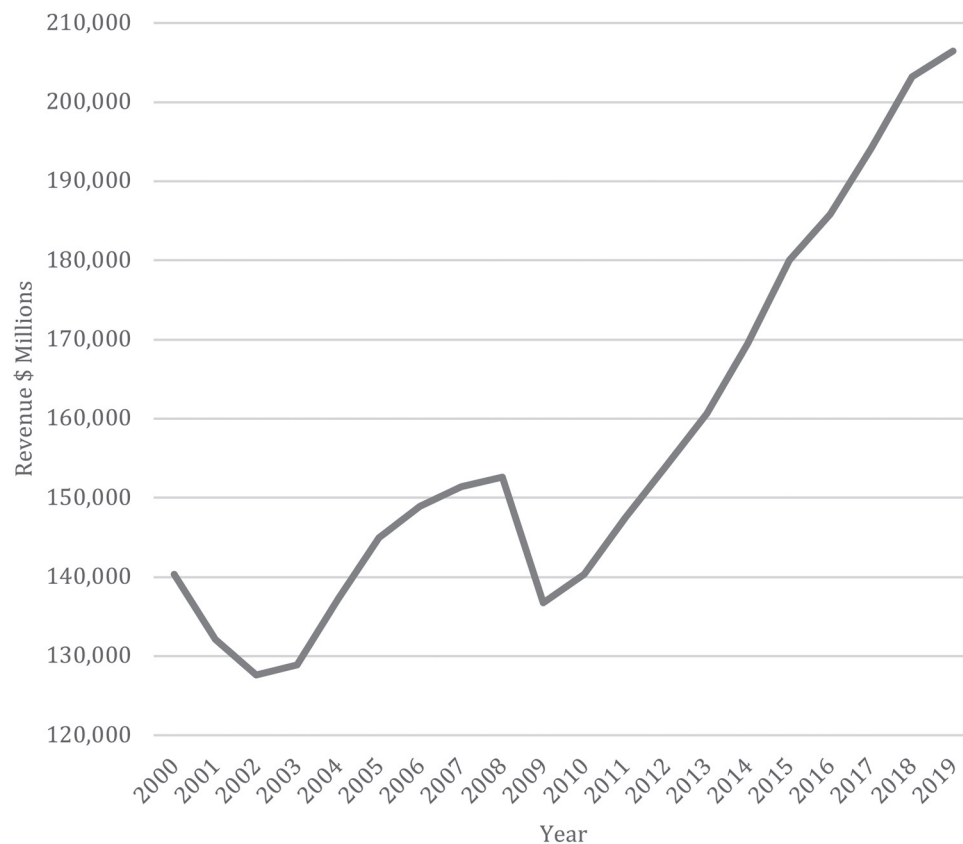


Figure 1. U.S. hotel and motel industry revenues.
Source: IBISWorld Industry Performance–Hotels and Motels

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Hotel industry investors, however, seem concerned and cautious about the significant slowdown in the industry's performance growth rate during 2019. Table 1 summarizes the 2019 stock returns of key hotel industry firms from both lodging and hotel-motel REIT sectors.

As shown in Table 1, the JHFM index for hotel industry stocks yielded negative and significantly low market premiums this year on an average (−2.83%, −17.21%, and −6.63% for the lodging, REIT, and overall hotel industry indices, respectively). The JHFM index is a market-capitalization weighted index maintained by the *Journal of Hospitality Financial Management*. It is a two-part index measuring the performance of hotel stocks trading in the U.S. equity markets. The first part is the JHFM Lodging Index consisting of the 10 largest market-cap firms in the lodging sector. The second part is the JHFM Hotel-Motel REITS Stock Index consisting of the 10 largest Hotel-Motel REIT firms currently trading in U.S. equity markets.

Contrary to previous years, the JHFM indices for hotel industry stocks seem to have significantly

underperformed the market index this year. The negative returns and sharp decline in current market premiums of these indices, particularly those for Hotel-Motel REITs relative to last year are concerning. Could this downturn in the performance of hotel industry stocks be suggesting warning bells and the need for caution on the part of hotel investors next year?

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Table 1. JHFM Index and 2019 Total Stock Returns of Key Hotel Industry Firms

Stock Name	Sector*	Ticker	Market Cap (Million \$)	1-Year Return%
Marriott International, Inc.	L	MAR	51,419.00	−2.59
Hilton Worldwide Holdings, Inc.	L	HLT	26,497.00	18.18
Accor SA	L	ACCYY	11,700.00	−11.61
InterContinental Hotels Group PLC	L	IHG	11,368.00	0.37
Hyatt Hotels Corp.	L	H	7,506.00	−2.78
Choice Hotels International, Inc.	L	CHH	5,067.00	10.6
Wyndham Hotels & Resorts	L	WH	4,955.00	−3.98
Extended Stay America, Inc.	L	STAY	2,647.00	−22.59
Red Lion Hotels Corp.	L	RLH	132.00	−53.41
Portsmouth Square, Inc.	L	PRSI	62.40	19.72
Host Hotels & Resorts, Inc.	RHM	HST	11,708.00	−14.75
Park Hotels & Resorts, Inc.	RHM	PK	6,240.00	−20.08
Ryman Hospitality Properties, Inc.	RHM	RHP	4,098.00	−2.83
Hospitality Properties Trust	RHM	HPT	3,970.00	−5.83
Pebblebrook Hotel Trust	RHM	PEB	3,658.00	−23.72
Apple Hospitality REIT	RHM	APLE	3,566.00	0.34
Sunstone Hotel Investors, Inc.	RHM	SHO	3,128.00	−15.16
RLJ Lodging Trust	RHM	RLJ	2,790.00	−17.94
Xenia Hotels & Resorts, Inc.	RHM	XHR	2,410.00	−9.84
Diamondrock Hospitality Co.	RHM	DRH	2,020.00	−13.92
JHFM Lodging Stock Index (Weighted Average)*				1.35
JHFM Hotel-Motel REITs Stock Index (Weighted Average)*				−13.02
JHFM Hotel Industry Stock Index (Weighted Average)**				−2.44
Overall Market S & P 500				4.19
Market Premium: JHFM Lodging Stock Index (Weighted Average)				−2.83
Market Premium: JHFM Hotel-Motel REITs Stock Index (Weighted Average)				−17.21
Market Premium: JHFM Overall Hotel Industry Stock Index (Weighted Average)				−6.63

Note: * L = Lodging Sector; RHM = REIT (Hotel-Motel); ** Combines Lodging and REITs (Hotel-Motel) sectors.

Source: Morningstar Investment Research Center Data, September 21, 2019.